

Message Text

CONFIDENTIAL

PAGE 01 OSLO 01526 01 OF 02 301600Z
ACTION EUR-12

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FEAE-00 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 EPA-01
CEQ-01 DLOS-09 /110 W
-----301916Z 055574 /46

R 301437Z MAR 77
FM AMEMBASSY OSLO
TO SECSTATE WASHDC 3464
INFO AMEMBASSY LONDON
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 OSLO 1526

E.O. 11652: NGDS
TAGS: ENRG, FR, UK, NO
SUBJ: DRILLING OFF NORTH NORWAY

BEGIN UNCLASSIFIED

SUMMARY: ALTHOUGH PARLIAMENT IN MARCH AGREED IN PRINCIPLE TO INITIAL OFFSHORE DRILLING IN 1978 OFF NORTH NORWAY, IT DEFERRED A FINAL DECISION UNTIL AFTER THE GENERAL ELECTIONS IN SEPTEMBER. SINCE TWO OF THE THREE NON-SOCIALIST OPPOSITION PARTIES OPPOSED SELECTING A DATE AND THE SOCIALISTS AND NON-SOCIALISTS ARE NECK-AND-NECK IN THE ELECTION RACE, IT IS STILL AN OPEN QUESTION WHETHER THE DRILLING WILL ACTUALLY BEGIN NEXT YEAR. END SUMMARY.

1. ON MARCH 11, 1977 THE NORWEGIAN PARLIAMENT AGREED TO EXPLORATORY DRILLING OFF MNORTH NORWAY BEGINNING IN THE SUMMAR OF 1978, PROVIDED ADEQUATE SAFETY AND POLLUTION CONTROL MEASURES ARE COMPLETED BEFORE DRILLING STARTS. THE MINISTRY OF INDUSTRY WILL DRAW UP A REPORT ON SAFETY AND POLLUTION CONTROL MEASURES FOR THE AREA FOR CONSIDERATION BY APRLIAMENT IN THE FALL. THIS REPORT MUST BE APPROVED BY PARLIAMENT BEFORE DRILLING CAN ACTUALLY START. ALTHOUGH THIS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OSLO 01526 01 OF 02 301600Z

EFFECTIVELY PUTS OFF A FINAL DECISION ON DRILLING OFF NORTH NORWAY UNTIL AFTER THE GENERAL ELECTIONS THIS SEPTEMBER, THE GOVERNING LABOR PARTY SUPPORTED THIS PROCEDURE.

2. OTHER KEY ELEMENTS OF THE DECISION INCLUDED: (A) DRILLING SHOULD START IN AN AREA NORTH OF TROMSO IN 1978 AND IN AN AREA OFF MID-NORWAY LATER, POSSIBLY IN 1979; (B) DRILLING SHOULD BE

CONFINED TO MAY TO SEPTEMBER-OCTOBER; (C) TOW DRILLING RIGS SHOULD BE USED DURING THE FIRST SUMMER SEASON WITH EXPANSION POSSIBLE LATER; (D) NORWAY'S STATE OIL COMPANY, STATOIL, SHOULD HAVE EITHER 50 PERCENT OR MORE PARTICIPATION IN ALL CONCESSIONS OF THE RIGHT TO ACQUIRE IT IF DISCOVERIES ARE MADE; (E) PARTICIPATING IN ALL CONCESSIONS BY FINANCIALLY AND TECHNICALLY STRONG, EXPERIENCED FOREIGN OIL COMPANIES SHOULD BE ENCOURAGED TO SPREAD RISK; (F) STATOIL, NORSK HYDRO (51 PERCENT GOVERNMENT OWNED), AND SAGA (PRIVATE) SHOULD BE GIVEN OPERATOR RESPONSIBILITY; (G) CLOSE TECHNICAL COOPERATION WITH A LARGE, EXPERIENCED FOREIGN OIL COMPANY IS REQUIRED FOR CONCESSIONS WHERE STATOIL, NORSK HYDRO, OR SAGA ARE OPERATORS, (H) PERMISSION TO EXPLOIT FINDS SHOULD BE CONSIDERED SEPARATELY BY PARLIAMENT ON A CASE-BY-CASE BASIS; (I) THE NORTH SEA POLICY OF A "MODERATE RATE OF EXPLOITATION" SHOULD ALSO GUIDE ACTIVITY OFF NORTH NORWAY.

3. DEBATE FOCUSED LARGELY ON ENVIRONMENTAL CONCERNS AND POSSIBLE DAMAGE TO THE IMPORTANT FISHING BANKS OFF NORTH NORWAY. THE CONSERVATIVE PARTY GAVE THE LABOR PARTY STRONG SUPPORT, BREAKING WITH OTHER NON-SOCIALIST PARTIES WHICH OPPOSED SELECTING 1978 AS THE DATE TO BEGIN DRILLING OFF NORTH NORWAY. PRIME MINISTER NORDLI SAID THAT FISHING AND FARMING WILL CONTINUE TO BE IMPORTANT ELEMENTS IN NORTH NORWEGIAN LIFE AND WOULD BE STRENGTHENED, BUT WARNED AGAINST AN ECONOMY BASED SOLELY ON THESE BASIC ACTIVITIES. OIL, HE SAID, COULD OPEN UP NEW POSSIBILITIES FOR NORTH NORWAY, AND A NUMBER OF OTHER SPEAKERS POINTED OUT THAT THIS WAS THE REASON BEHIND THE DECISION TO BEGIN DRILLING OFF NORTH NORWAY IN 1978 RATHER THAN MOVING EXPLORATION GRADUALLY NORTHWARD FROM 62 DEGREES. END UNCLASSIFIED.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OSLO 01526 01 OF 02 301600Z

BEGIN CONFIDENTIAL

4. COMMENT: THE DECISION TO PUT OFF THE FINAL APPROVAL OF DRILLING NORTH OF 62 DEGREES UNTIL AFTER THE GENERAL ELECTIONS IN SEPTEMBER IS PURELY POLITICAL. IT WAS TAKEN WITH COMPETITION FOR VOTER SUPPORT IN NORWAY AND ESPECIALLY WITH NORTH NORWAY IN MIND. THE OFFSHORE DRILLING QUESTION IS A CONTENTIOUS ISSUE IN THE NORTH. LARGE GROUPINGS OF VOTERS THERE, PARTICULARLY FARMERS AND FISHERMEN, OPPOSE OFFSHORE OIL DEVELOPMENT EITHER BECAUSE THE ADVENT OF THE OIL INDUSTRY THREATENS TO CHANGE THEIR TRADITIONAL WAY OF LIFE OR BECAUSE OF POTENTIAL ENVIRONMENTAL DANGERS. WITH A CLOSE ELECTION CERTAIN, NONE OF THE MAJOR POLITICAL PARTIES CAN AFFORD TO OVERLOOK THIS OPPOSITION VOTE IN THE NORTH; ALL THEREFORE WERE WILLING TO DEFER THE DRILLING DECISION UNTIL AFTER THE ELECTION. LABOR, ESPECIALLY, IS WILLING TO PUT THE ISSUE OFF UNTIL LATER IN THE YEAR BECAUSE THE LABOR PARTY MOST LIKELY WILL HAVE TO WIN SEATS IN NORTH NORWAY TO RETURN TO POWER. LABOR PARTY LOST HEAVILY

IN NORTH NORWAY DURING THE LAST ELECTION (1973), PRINCIPALLY AMONG THE FARM AND FISHING COMMUNITIES OVER THE QUESTION OF EEC MEMBERSHIP. WITH THE EEC ISSUE BEHIND IT, THE LABOR PARTY IS HOPEFUL OF REGAINING ITS FORMER NORTH NORWAY SUPPORT, BUT IT RECOGNIZES THAT IT CANNOT DO THIS IF IT CROSSES THE FARMERS AND FISHERMEN THERE ON THE OIL DRILLING QUESTION.

CONFIDENTIAL

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PAGE 01 OSLO 01526 02 OF 02 301627Z
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CEQ-01 DLOS-09 /110 W

-----301918Z 056437 /46

R 301437Z MAR 77
FM AMEMBASSY OSLO
TO SECSTATE WASHDC 3465
INFO AMEMBASSY LONDON
USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 2 OF 2 OSLO 1526

5. LABOR ALSO WENT ALONG WITH THE PROVISION THAT DEVELOPMENT OF ANY DISCOVERIES NORTH OF 62 DEGREES SHOULD BE CONSIDERED SEPARATELY BY PARLIAMENT ON A CASE-BY-CASE BASIS WHEN IT BECAME APPARENT THAT THIS PROVISION HAD SOLID NON-SOCIALIST BACKING. THE PROVISION IS INTENDED TO ENSURE THAT THE "MODERATE RATE" OF OIL AND GAS PRODUCTION AUTHORIZED BY PARLIAMENT IS NOT EXCEEDED AND TO GIVE PARLIAMENT CLOSE CONTROL OVER DEVELOPMENT OF ANY DISCOVERIES OFF NORTH NORWAY. IT IS CONSISTENT WITH A SIMILAR PROVISION THE LABOR GOVERNMENT ITSELF HAS SAID IT WILL INCLUDE IN LICENSES FOR A FEW OF THE MOST PROMISING BLOCKS SOUTH OF 62 DEGREES.

6. ALTHOUGH ALL MAJOR PARTIES CONTINUED TO SUPPORT A "MODERATE RATE" OF PRODUCTION, THE NON-SOCIALIST CENTER PARTY MADE IT CLEAR THAT IT NO LONGER CONSIDERED THIS TO MEAN THE INDICATIVE TARGET OF ABOUT 90 MILLION TONS OF OIL EQUIVALENT(T.O.3.) A YEAR ACCEPTED BY ALL MAJOR PARTIES IN 1974 AND THAT IT NOW SUPPORTS ONLY 50 MILLION TONS A YEAR.

7. THE LABOR PARTY HAS PREVIOUSLY BEEN FORCED TO POSTPONE PLANS

TO BEGIN DRILLING NORTH OF 62 DEGREES IN 1975/76 AND, LATER, IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OSLO 01526 02 OF 02 301627Z

1977. ALTHOUGH THE PARTY'S PLANS TO BEGIN DRILLING IN 1978
HAVE NOW BEEN APPROVED ONLY IN PRINCIPLE, THERE SHOULD BE NO
PROBLEM IN OBTAINING FINAL PARLIAMENTARY APPROVAL, PROVIDED LABOR
IS RE-ELECTED IN SEPTEMBER. IF, HOWEVER, THE SOCIALISTS FAIL
TO WIN A MAJORITY AND A GOVERNMENT IS FORMED WITH THE SUPPORT OF
THE TWO NON-SOCIALIST PARTIES WHICH OPPOSED BEGINNING DRILLING
THERE IN 1978, EXPLORATION IN THE NORTH MAY BE DEFERRED
INDEFINITELY. SINCE THE ELECTION IS NOW CONSIDERED A TOSS UP,
SO IS THE QUESTION OF WHETHER DRILLING WILL ACTUALLY START NORTH
OF 62 DEGREES IN 1978. MEANWHILE, THE GOVERNMENT IS PURCHASING
AND SETTING UP BLSES IN NORTH NORWAY FOR SAFETY AND POLLUTION
CONTROL EQUIPMENT WITH FUNDS APPROPRIATED BY PARLIAMENT FOR THIS
PURPOSE, AND THE MINISTRY OF INDUSTRY WILL SOLICIT BIDS FROM
FOREIGN COMPANIES FOR BLOCKS IN THE AREA OFF TROMSO WHERE DRILLING
IS TO START.

8. ALTHOUGH NORWEGIAN FIRMS WILL UNDOUBTEDLY SERVE AS OPERATORS
FOR THE FIRST CONCESSIONS, FOREIGN PARTICIPATION WILL FOLLOW
THE NORMAL PATTERN EMPLOYED SOUTH OF 62 DEGREES. DESPITE THE PROVISIO
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ALLOWED THE GOVERNMENT TO DEFER DEVELOPMENT OF FINDS, A
NUMBER OF MAJOR COMPANIES HAVE ALREADY EXPRESSED INTEREST. THE
SMALL NUMBER OF BLOCKS INVOLVED GIVES AN EDGE TO COMPANIES WITH
WHICH NORWAY HAS EXPERIENCE. BY FAR THE LARGEST NUMBER OF THESE
CONCERNS ARE AMERICAN, ALTHOUGH FRENCH COMPANIES AND OTHER
NATIONALITIES ARE ALSO REPRESENTED. HOWEVER, AMERICAN COMPANIES
ESPECIALLY, ESSO, WHICH HAS A PARTICULARLY CLOSE RELATIONSHIP
WITH STATOIL, ARE GENERALLY FAVORED BECAUSE OF THEIR GREATER
TECHNICAL COMPETENCE AND EXPERIENCE.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
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Concepts: POLLUTION CONTROL, OFFSHORE DRILLING, POLICIES, PROGRAMS (PROJECTS)
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Decaption Note:
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Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
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Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
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Review Event:
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Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3138110
Secure: OPEN
Status: NATIVE
Subject: DRILLING OFF NORTH NORWAY BEGIN UNCLASSIFIED SUMMARY: ALTHOUGH PARLIAMENT IN MARCH AGREED IN PR
TAGS: ENRG, FR, UK, NO
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/44d0bab9-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009